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DEPARTMENT PLEASE PASS TO USTR (BEEMAN)  
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TAGS: [ECON](#) [EFIN](#) [JA](#) [PGOV](#)

SUBJECT: JAPAN'S INCOME DISPARITY: WIDENING TREND PREDATES  
KOIZUMI REFORMS

REF: TOKYO 5903

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11. (U) Summary: The perception of an expanding income gap between the "haves" and the "have-nots" in Japan has become a significant political issue over the past year, with some charging that former Prime Minister Koizumi's reforms have undermined Japan's egalitarian society. Prime Minister Abe made his strategy to address the income gap a centerpiece of his campaign, and has named a Minister in charge of "second chance" programs to oversee this agenda. However, an examination of the available economic data shows that the growing income gap in Japan clearly predates the Koizumi administration, and has been widening since at least the early 1980s. The July 2006 OECD report on Japan that highlighted rising income inequality as an area of concern, and that helped fuel political criticism of the Koizumi reforms, only examined data up to 2000. In fact, the OECD report specifically states, "...The trends in inequality and poverty...should not be attributed to the policies of the current (Koizumi) government." Further, while the increasing share of part time workers - a major focus of Abe's "second chance" agenda - is contributing to the growth in income inequality, much of the increase is a natural result of Japan's aging population. End summary.

12. (U) Rising Inequality Pre-dates Koizumi Reforms: Statistics on income inequality are notoriously problematic, and often suffer from significant time lags. However, the data that are available show that disparity in Japanese household income has risen at a consistent pace since the early 1980s, as measured by the Gini coefficient. The Gini coefficient measures income inequality on a scale of zero to one, where zero corresponds to perfect equality and one corresponds with perfect inequality. The Survey on the Redistribution of Income, conducted every three years by the Ministry of Health, Labor and Welfare (MHLW) and most recently released in 2004, provides the Gini coefficient for both the initial income of households, and their "redistributed income," reflecting household income levels after taking account of taxes and social security payments/receipts.

Table 1: MHLW "Survey on Redistribution of Income" Gini Coefficient

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|                |     |     |     |     |     |     |     |     |     |     |     |
|----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Initial Income | .37 | .35 | .37 | .37 | .35 | .40 | .40 | .43 | .44 | .44 | .47 |
|                | .50 |     |     |     |     |     |     |     |     |     |     |
| Redistributed  | .33 | .31 | .35 | .34 | .31 | .34 | .34 | .36 | .36 | .36 | .38 |
|                | .38 |     |     |     |     |     |     |     |     |     |     |

The survey found that Gini coefficient on initial income rose to 0.50 in 2002, marking the seventh increase in a row and a 43% increase from 1981. The survey also showed that inequality after income redistribution has been rising generally since the early 1980s, albeit at slower rates, as the Gini coefficient on "redistributed income" in 2002 had risen 21% since 1981. As a consequence of the consistent upward trend, the July 2006 OECD study found that Japan's income inequality has risen to above the OECD average. (Note: The GOJ conducts a total of three surveys on income distribution, all of which show inequality rising, but at slightly different rates, due to differing methodologies and coverage. The Survey on the Redistribution of Income has the broadest coverage of the full population, and provides the longest data history.)

¶3. (U) Overall Income Inequality Slightly Greater than OECD Average: The July 2006 OECD report on Japan - by feeding data from a different MHLW income survey into its own database, which attempts to standardize income distribution data across countries - concluded that Japan's income inequality was slightly above the OECD average, but below the level of the United States. Breaking out data for only the working age population yielded a similar result. While the magnitude of Japan's income gap in the OECD data was less than that shown by the Survey on the Redistribution of Income due to differing survey methodologies, the underlying trends

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illuminated in the OECD report were the same as those mentioned above.

Table 2: OECD Total Population Gini Coefficient

|               | Mid-1980s | Mid 1990s | 2000 |
|---------------|-----------|-----------|------|
| Japan         | .28       | .30       | .31  |
| United States | .34       | .36       | .36  |
| OECD Average  | .29       | .30       | .31  |

Table 3: OECD Working-age Population Gini Coefficient

|               | Mid-1980s | Mid 1990s | 2000 |
|---------------|-----------|-----------|------|
| Japan         | .28       | .29       | .31  |
| United States | .33       | .35       | .35  |
| OECD Average  | .26       | .28       | .29  |

¶4. (U) Factors Responsible for Growing Income Inequality: Based on the results of their survey, MHLW concluded that nearly 65% of the increase in the total disparity in initial household income from 1999 to 2002 was due to the accelerating aging of the population. A decrease in the number of household members because of growing single-person households contributed about 25% of the total income disparity, while the remaining 10% of the disparity could be attributable to other factors, presumably mainly the increase in non-regular workers.

¶5. (U) Aging Population Feeds Income Disparity: Japan's demographic challenges, namely the rapid aging of its population, contributes substantially to growing income disparity, as only a small percentage of elderly are part of the work force. Therefore, as in most countries, income levels amongst the elderly are low compared to other age groups. Further, because some elderly are not earning any income, the income disparity within the elderly age cohort tends to be larger than in other age groups. Indeed, MHLW data showing that the Gini coefficient for the over 65-age cohort was 0.42 in 2002, compared to 0.40 for the overall

population. As the elderly age cohort grows - the share of those over 65 in Japan's total population doubled in the past two decades, increasing from 10% in 1985 to 21% in 2005 - their income inequality data have a larger and larger effect on the data for Japan's entire population.

¶16. (U) Income Redistribution Helps Elderly at Expense of the Young? As Table 1 shows, GOJ policies to redistribute income, through pension, insurance, and healthcare payments, along with unemployment insurance and other means, helps to reduce income disparity, bring the Gini coefficient from 0.50 to 0.38. Much of this income redistribution benefits the elderly. While MHLW's survey data show initial income levels of groups aged over 65 are at the bottom of the income distribution table, their "redistributed income" levels after receiving pension and other social security benefits rise substantially, and are roughly equivalent to that of the age cohort of 30-34. An increase in total pension payments as the population ages is unavoidable. However, the OECD concluded that Japan's social welfare and insurance spending disproportionately favors the elderly over the working-age population, as shown by the very low levels of spending on unemployment insurance in Japan. This contributes to the increasing income gap in the working age population, as those not able to pursue a traditional career path are left with little government support, and must rely on low-paying part-time or non-regular jobs.

¶17. (U) Growing Share of "Non-Regular" Workers Creates Wage Gap: Reflecting corporate efforts to reduce personnel costs and enhance employment flexibility by replacing regular workers with "non-regular" workers (i.e. part-time and contract workers who earn lower wages and receive fewer benefits), the share of non-regular workers in employment jumped from 13% in 1990 to 22% in 2002, and even further to 25% in 2005. In particular, according to MHLW's Labor White Paper, non-regular workers in the age cohort of 20-24 surged from 8% in 1982 to 32% in 2002. Non-regular workers were paid only about 60% as much as regular workers in 2005 on an hourly basis. This growing share of low-wage non-regular workers has been the main driver of the growing income disparity in the working age population, as wage differences amongst fulltime employees actually have narrowed in recent

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years. Much of Prime Minister Abe's "Second Chance" program appears aimed at introducing job counseling, employer-employee matching and other assistance programs, aimed at enabling the many "freeters" (freelance part-time workers) and "NEETs" (those Not in Education, Employment, or Training) to compete for full-time positions.

¶18. (U) Conclusion: Income Gap Likely to Continue to Grow: With Japan's population continuing to age, with social spending heavily tilted towards the elderly, and with few incentives in place to encourage companies to hire more full-time workers, the income disparity, among both Japan's working-age and elderly populations, is likely to continue to widen. Thus, the public perception of a newly expanding income gap is unlikely to dissipate, despite the trend actually being a long-term one rather than a development caused or even worsened by reforms during the Koizumi era. Further, with MHLW scheduled to announce the results of its 2005 "Survey on the Redistribution of Income" next summer, around the time of the Upper House election, income disparities are likely to remain a major political issue throughout the next year.

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